

9 July 1979

MEMORANDUM FOR: John Despres

SUBJECT: An Economic Approach to Long-Term Competition

I like your paper very much. I think it needs some additions, and it should then be published (perhaps in Foreign Policy or Orbis). Here are some comments:

1. You should hit harder and explain in some more detail, the Soviet need to raise labor productivity by means of more investment, and especially more investment in industries requiring high technology imports. The less such technology can be imported and fruitfully absorbed, the greater the volume of needed investment will be. I think myself that Soviet leaders, including successors to the present leadership, will be reluctant to reduce defense expenditures. But the bind they will be in will grow tighter, and we would make things tougher for them if we were able to restrict technology transfer.
2. However, our ability to do so effectively is very limited because it requires central decision-making and decision-enforcing domestically and internationally. The needed policy conflicts with the interests of US business, and it could be very effective only if the major OECD countries fully cooperated. These two political problems constitute the weakness of your proposal. Indeed, if we could solve these problems, we could do more than you propose, e.g., we could form a near-monopoly with Canada and raise grain prices against the Soviet Union (and, incidentally perhaps against OPEC).
3. You might also want to explore the implications of your proposal for an export policy vis-a-vis the eastern European countries. There are pros and cons regarding an extension to them of the controls you envisage.
4. Finally there is another range of problems regarding the US capacity to compete with the Soviet Union in the rest of the world, namely constraints on the US capacity to give economic aid (and to withhold it) resulting from weaknesses in the US balance on current account.

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